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UNCLAS SECTION 01 OF 03 MAPUTO 000007

SIPDIS

STATE FOR H DPARKS, AF/S TREGER, AF/EX HEFFERMAN,
EB/IFD/ODF, AND EB/TRA,
USAID FOR AFR/SA DMENDELSON AND LPA/CL - SWILLIAMS
USDOC FOR RTELCHIN
MCC FOR SGAULL, TBRIGGS

SENSITIVE

E.O. 12958: N/A

TAGS: [PREL](#) [KHIV](#) [KMCA](#) [ECON](#) [ETRD](#) [MZ](#) [MCC](#)

SUBJECT: SCENE-SETTER FOR VISIT OF STAFFDEL MCLEAN TO
MOZAMBIQUE

REF: A. Maputo 1645 NOTAL

[B](#). Maputo 1001 NOTAL

[C](#). Maputo 1183 NOTAL

Sensitive but Unclassified Handle Accordingly. Not for
Internet Distribution.

[1](#). (SBU) Introduction and Summary: Your visit to Mozambique will provide an opportunity to gain a better understanding of the U.S. contribution in the fight against HIV/AIDS and Mozambique's Millennium Challenge Account (MCA) concept paper. You are arriving just after presidential and legislative elections. President Joaquim Chissano will be succeeded within several weeks by President-elect Armando Guebuza, who is also from the FRELIMO party. We expect Guebuza will re-shuffle the cabinet and appoint new governors. This means that some of the individuals you will encounter or hear about might not be in office for long. This message provides background on the elections, trade and investment, HIV/AIDS, poverty reduction, and other topics. End Introduction and Summary.

MOZAMBIQUE AND DEMOCRACY

[2](#). (SBU) Mozambique is rightly considered a post-conflict success story. Since the signing of the 1992 Rome Peace Accords, which ended sixteen years of civil war, Mozambique has made significant progress on stabilization and democratic development. FRELIMO has been the ruling party in Mozambique since independence. FRELIMO's former military opponent, RENAMO, has been the main opposition party. In November 2003 Mozambique held municipal elections, which resulted in a major win for the ruling party, FRELIMO, and were generally regarded as free and fair. In December 2004, Mozambique held its third multi-party presidential and legislative elections since independence. Armando Guebuza, the FRELIMO candidate, won the presidency by a wide margin, and FRELIMO candidates won most of the seats in the National Assembly. Although the elections were marred by irregularities, they were not significant enough to affect the outcome of the presidential election. (ref A). Guebuza will replace Joaquim Chissano, who has ruled Mozambique since 1986, early in the new year.

[3](#). (SBU) During November 2003 municipal elections, FRELIMO won all but four of the country's 33 races for mayor. RENAMO's four mayoral wins and five city council wins gave it, for the first time, a governing role at any level. All of the RENAMO wins were in the central and northern provinces, and included the important port cities of Beira and Nacala.

[4](#). (SBU) FRELIMO will return to Parliament with a strong majority 160 out of 250 seats -- up from its current 133 and just seven short of the two-thirds majority needed to amend the constitution. A coalition of RENAMO and several small parties won the 90 remaining seats (Comment: As of January 3, it is unclear whether RENAMO or its allied parties will seat representatives in Parliament. RENAMO, particularly, has denounced the elections as unfair and has vowed not to participate in Parliament. It made the same boycott threat in 1999 but changed its mind after several weeks and joined Parliament. End comment.) The voter participation rate was only around 45 percent. Several local, regional, and international observer groups, including the Carter Center, monitored the elections. The Presidency of the European Union said that the elections were carried out in a "generally successful and peaceful" manner, and "broadly conducted along the lines of internationally established standards". The EU publicly stated that irregularities should be investigated and resolved in accordance with the law. The Carter Center made similar comments.

A WORD ON PRESIDENT-ELECT GUEBUZA

[5](#). (SBU) Although Guebuza reportedly is more nationalistic and less flexible than is Chissano, he has indicated recently that he is likely to continue current government

policies. During his trip to the United States in July, where he attended the Democratic National Convention and met with U.S. officials, Guebuza repeatedly said he favored maintaining a strong Mozambique-U.S. relationship and stressed that he would honor commitments with donor communities and international financial institutions (IFIs). A businessman himself, as a result of his party and government positions, Guebuza has a good understanding of business and economic concerns and has close ties to the private sector community. Guebuza has, on occasion, called for the "Mozambicanization" of businesses (Ref B), which has sparked some concern among foreign investors both existing and potential. Guebuza acknowledges the extensive US commitment to helping Mozambique overcome the challenges of poverty and HIV/AIDS. He comes across as serious and intelligent.

THE STATE OF ECONOMIC AFFAIRS

16. (U) Recovering from a devastating civil war, Mozambique's macroeconomic reforms and success in attracting large investment projects have given the country an average GDP growth rate of eight percent from 1992-2004, the highest in Africa over this time period. This growth is from a very low base; per capita GNP for 2004 is projected at around USD 290. Foreign direct investment, exports, and revenue collections all have seen notable increases, and the government continues to privatize state firms, albeit at a slower pace than in the late 1990's.

17. (U) Maintaining this high rate of growth hinges on several major foreign investment projects (aluminium, natural gas), continued economic reform, and the growth of the agriculture, transportation, and tourism sectors. The inflation rate for 2004 was around 11 percent, in line with the levels of recent years.

18. (SBU) The Mozambican business climate needs improvement. Generally sound macroeconomic policies and high-level commitment to attracting business mask a bureaucracy that remains at times unresponsive to the needs of corporations, especially small-to-medium-sized enterprises. Obtaining permits takes time, corruption is problematic, and the legal system is antiquated and cumbersome. Although revisions are being considered, the labor law remains extremely inflexible and an impediment to foreign investment. Land title is granted in the form of leases; private ownership of land is not allowed. Donors are working extensively with the GRM to modernize and improve the commercial code, labor law, business registration process, tax system, and land ownership policy. Although reform is moving in the right direction, it will take several years before significant impediments to investment are removed. Mozambique's road network is quite limited and in poor condition along many stretches, although major repair work is underway.

COMMERCIAL OPPORTUNITIES AND MEGA-PROJECTS

19. (U) Mozambique offers substantial investment and commercial opportunities in energy generation (hydropower, coal, and gas), transportation (road construction, rail and port services, airport construction, and air transport), resource extraction (natural gas, minerals, timber, and fishing), aquaculture, agriculture/horticulture (cereals, cashews, cotton, sugar, vegetables, flowers, and citrus; light industry), and tourism. In December 2004, the Government of Mozambique ratified the U.S.-Mozambique Bilateral Investment Treaty (BIT) that was signed in 1998 and ratified by the U.S. in 2001.

10. (U) Several mega-projects, funded by outside investors, are important contributors to Mozambique's rapid economic growth. These enterprises include the MOZAL aluminum smelter (an Australian investment), the newly inaugurated SASOL gas pipeline (South Africa), and soon-to-be operational mining and heavy sands projects in Gaza and Nampula Provinces (Australia and Ireland). The GRM works closely with large investors by creating government-investor task forces to address concerns about working in the Mozambican business environment. The GRM is very responsive to these investors and has created several "special economic zones" and "export processing zones," some located in poor and under-developed areas. Mozambique's mega-projects account for 2-3 percentage points of the country's GDP growth and a much larger share of its export growth.

THE FIGHT AGAINST HIV/AIDS

11. (U) HIV/AIDS: Mozambique is at a critical stage in its efforts to stem the HIV/AIDS epidemic. In Southern Africa, Mozambique presents both the greatest challenges and

possibly the greatest opportunity to become the next Uganda-like success in turning around the HIV/AIDS threat. We have made considerable efforts to ensure that the Emergency Plan For AIDS Relief is seen as a collaborative approach to addressing the epidemic by working closely with the government, other donors, and domestic and international NGOs. Mozambique is the only country to be both a focus country under the Emergency Plan for AIDS Relief and eligible to receive FY04 and FY05 MCA funding. (NOTE: We will send via email a more detailed briefing on U.S. activities to combat HIV/AIDS in Mozambique. END NOTE.)

MCA IN MOZAMBIQUE

12. (SBU) Mozambican government officials, civil society leaders, and private sector groups are generally aware of the MCA and Mozambique's FY04 and FY05 eligibility for the program. MCC representatives have visited Mozambique on three occasions since Mozambique was selected as part of the first group of 16 eligible countries in May 2004, with MCC CEO Applegarth visiting in October. Mozambique submitted a concept paper to the MCC in late September that is focused on the private sector and the northern region. The government entrusted the CTA, a confederation of business associations and also the private sector representative on Mozambique's MCA Technical Group, with the responsibility for drafting Mozambique's concept paper. Although the CTA and the Mozambique-US Chamber of Commerce have circulated the concept paper widely both in public meetings around the country and on the internet, the government has not yet officially released it. There has been some press coverage, particularly around the MCC visits, but as yet no in-depth presentation and analysis of the concept paper by the media. The MCC provided feedback on Mozambique's concept paper in late November, and a dialogue has been developing since then with responses to the initial feedback now being produced.

13. (U) In brief, the Mozambique concept is expected to "promote business, investment, and employment". The program will reduce poverty and spur growth by lowering costs and risks of doing business in Mozambique while improving the competitiveness of the private sector. The four priority areas are:

- policy reform to improve the trade and business environment,
- business development assistance to increase trade and competitiveness of firms,
- infrastructure improvements to facilitate trade and reduce transaction costs, and,
- select education, health, and sanitation initiatives to improve social conditions in Northern Mozambique.

The concept paper states that the program has the potential to create 5,000 direct jobs, 1.7% incremental GDP growth, and a reduction in poverty from 54 percent to 45 percent after 10 years. The budget for the proposed program is USD 148 million.

DUDLEY